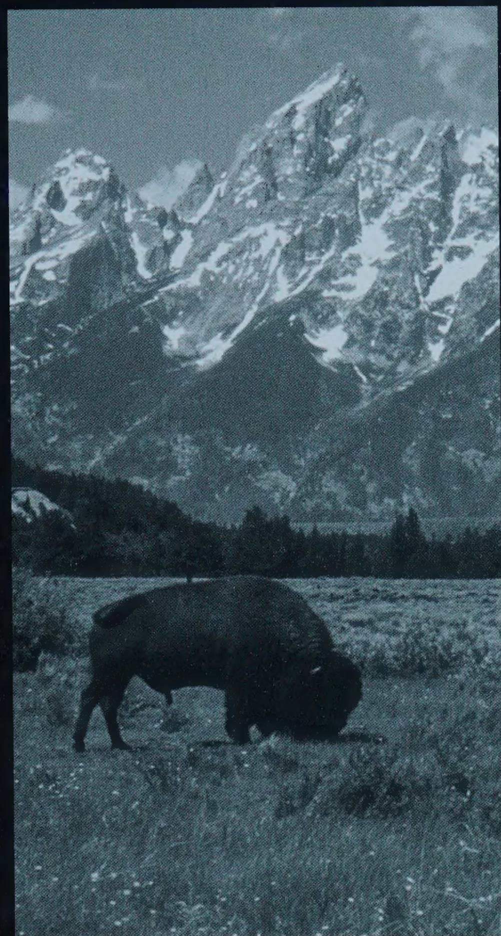


# 1999
## ANNUAL REPORT

BISON
RESOURCES LTD.

CORPORATE PROFILE

**Bison Resources Ltd. is an Alberta based corporation engaged in the exploration, development and production of crude oil, natural gas and associated liquids in western Canada. Bison develops hydrocarbon reserves primarily through the internal generation of geological prospects for drilling or acquisition in core areas with high percentage ownership.**

The Annual General Meeting of shareholders of Bison Resources Ltd. will be held at the Ramada Hotel, Chianti Room, 708 - 8th Avenue SW, Calgary, Alberta on Friday June 23, 2000, at 11:00 a.m. (Calgary time). Shareholders are encouraged to attend and those unable to do so should complete the Form of Proxy and forward at their earliest convenience.

## ABBREVIATIONS

| | |
|---|---|
| ARTC | Alberta Royalty Tax Credit |
| BBL | Barrel |
| BCF | Billion cubic feet |
| BOE | Barrel of oil equivalent (10 mcf of natural gas = 1 bbl of oil) |
| BOEPD | Barrels of oil equivalent per day |
| BOPD | Barrels of oil per day |
| CDE | Canadian development expense |
| CEE | Canadian exploration expense |
| EBITDA | Earnings before interest, income taxes, and depreciation, depletion and amortization |
| MCF | Thousand cubic feet |
| MCFPD | Thousand cubic feet per day |
| MSTB | Thousand Stock Tank Barrels |
| NGL | Natural gas liquids |

BISON
RESOURCES LTD.

| | | |
|---|---|---|
| Production - oil | | 45,793 bbls |
| Production - gas | | 61,078 mcf |
| Reserves - oil | | 252,000 bbls |
| Reserves - gas | | 1,048,200 mcf |
| Undeveloped Land | | 6,029 net acres |
| Average price per BOE | $ | 25.45 |
| Lifting costs per BOE | $ | 10.17 |
| Netback per BOE | $ | 13.91 |
| Cash flow from operations | $ | 582,415 |
| Cash flow per share | $ | 0.07 |
| Net income (loss) | $ | (63,856) |
| Net income (loss) per share | $ | (0.01) |
| EBITDA | $ | 335,996 |
| Capital expenditures | $ | 517,051 |
| Total assets (net) at December 31, 1999 | $ | 3,321,787 |
| Long-term debt at December 31, 1999 | $ | 284,000 |
| Shareholder's equity at December 31, 1999 | $ | 1,915,154 |
| Weighted average shares outstanding | | 7,832,808 |

While the start of 1999 created anxiety through continued low pricing of oil, pricing gains in the second quarter provided Bison with the means to withstand the adverse conditions and prepare for future activity. The lack of a financial surplus made it impossible to develop an active exploration program and Bison chose instead to acquire and reactivate select wells with good success. Drilling was reduced to a single well in Alberta which was successfully completed as a Lower Mannville gas well. Fiscal restraint in 1999 together with a flow-through share offering in December 1999 has allowed Bison to eliminate bank debt and have funds to pursue drilling prospects in the upcoming year.

Fiscal restraint in 1999 together with a flow-through share offering in December 1999 has allowed Bison to eliminate bank debt and have funds to pursue drilling prospects in the upcoming year

The primary area of focus for Bison remains in Southeast Saskatchewan where the company has numerous drilling prospects which are attractive now at elevated prices. The challenge remains to reduce operating costs of existing production and keep in focus projects of sufficient size to allow for cost reductions by addition of production facilities. The Huntoon area continues to represent the mainstay of Bison with the horizontal well providing consistent production of approximately 90 BOPD. The well performance suggests it could be produced at much higher rates but Bison believes that water encroachment would be accelerated to the detriment of the longevity of the well. As an alternative, Bison has delineated three additional development drilling locations which it intends to drill after break-up in spring of 2000. Success with the drilling program will also include a water disposal well and subsequent construction of a battery.

As a natural consequence of being a small producer the opportunity to participate in large projects is seldom available, but management has resolved itself to focus on smaller projects that Bison can undertake at high working interest positions and carry out to a successful conclusion. While such an approach demands a more patient attitude we believe that the short term restrained activity levels will change to a greater pace once the first three wells are drilled in 2000. Shareholders will be rewarded with increased value as Bison should be able to take advantage of cash flow and limited bank financing to first drill and then install facilities.

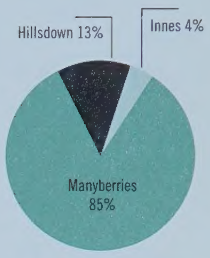
Gas development in Alberta remains a target for Bison and the staff continues to investigate projects which have a low level of entry investment with longer term upside. Again, to maintain high working interest levels there are limitations on both the nature and the geographic location of prospect areas. Certain geologic concepts in a liquids rich gas prone area have been developed and Bison has acquired mineral rights that will allow for testing of the hypothesis in late 2000.

The management team at Bison Resources Ltd. remains committed to building shareholder value an believes that it is about to turn the corner to increased levels of activity and profitability. The continued support of the shareholders is greatly appreciated.

N Swagor

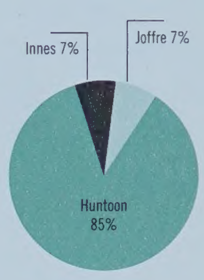
Nicolas S. Swagor
President

Bison's principal area of focus is in southeastern Saskatchewan where Bison can be competitive in the acquisition of petroleum and natural gas ("P&NG") rights and development of those rights through drilling. Lead times between prospect generation and purchase of mineral rights is minimized through acquisition of freehold mineral rights. Because the area has been extensively drilled over the last 30 years there is an abundance of geological information available from both abandoned and producing wells. The data obtained can be interpreted and prospects are generated with a minimum of extra cost of geophysical surveys. The reservoir characteristics of the producing horizons allows for close spacing of wells and the utilization of horizontal drilling techniques. By developing assets in this area Bison intends to build a strong production base that can be operated independently of third party influence and with low operating costs. At this time Bison's production is weighted to about 88% oil from Saskatchewan.




Gas Production
MCF

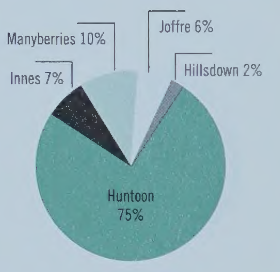
To compliment the oil reserves in Saskatchewan, Bison has developed oil prospects in Alberta, and initially has begun with acquiring non-producing well bores in need of repairs or uphole completions. Additionally, Bison intends to participate in the drilling of medium depth gas prospects with associated liquids. By its very nature the recovery of gas reserves is more capital intensive due to the necessity to process and often compress gas for sales. At the present time Bison is reviewing a number of prospects that will be pursued in a timely fashion depending upon availability of facilities. Initially Bison will focus on gas prospects which offer medium rate capabilities yielding a seven to ten year productive life.




Oil Production
BBL

In developing projects Bison has leaned heavily on a 100% working interest position, but will endeavour to both spread risk and build alliances with others by accepting joint venture partners. In order to maintain appropriate development of any projects, the partners sought for will be of a similar size and thinking and ones that can offer back other opportunities.

Bison's staff is sufficient to manage a production base of up to 1,000 boepd and therefore the general and administrative costs relative to income are expected to shrink as production grows.

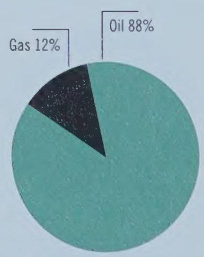



Oil & Natural Gas Production
BOE

## OPERATIONS

On June 2, 1999 Bison purchased a 60% working interest in a shut-in oil well in the Joffre area of Alberta increasing its working interest to 70% and taking over operatorship of the well. After the well was repaired, pumping commenced with initial flush production. Production stabilized at 38 boepd (net 27 boepd) while the acquisition added net reserves of approximately 30,000 barrels at a cost of $4.60 per barrel.

On August 1, 1999 Bison purchased a 2.4% working interest in one of its gas properties at Hillsdown, Alberta increasing its working interest in the property to 8%. Bison is considering the purchase of additional working interests in its gas properties at Hillsdown and additional gas reserves have been tied in at Hillsdown where Bison has a 20% working interest.

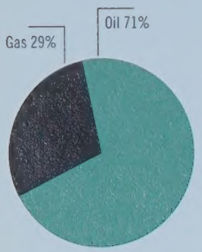



Oil & Natural Gas Production
BOE

During December, 1999 Bison participated in the drilling of a 1500 meter test well offsetting a former producing Glauconite gaswell in the Nelson area of Central Alberta. Drilling was complete by the end of December and production testing continued into January, 2000. Bison paid 60% of the drilling costs to casing point (50% thereafter) to earn a 50% working interest before payout (25% after payout) in the well. Bison expanded its land position during 1999 and has developed additional prospects in the Wordsworth (formerly Buffalo Head), Huntoon and Nelson areas. Bison now retains an average 71% working interest in 8,893 net acres at an average cost of $139 per acre.

## PRODUCTION

| Area | Oil (bbls) | Natural Gas (mcf) | NGL (bbls) | BOE (bbls) | BOEPD (bbls) |
|---|---|---|---|---|---|
| Huntoon, Saskatchewan | 38,973 | 0 | 0 | 38,973 | 113 |
| Innes, Saskatchewan | 3,446 | 1,661 | 0 | 3,612 | 10 |
| Manyberries, Alberta | 0 | 51,665 | 0 | 5,167 | 14 |
| Hillsdown, Alberta | 0 | 7,752 | 155 | 931 | 2 |
| Joffre, Alberta | 3,374 | 0 | 0 | 3,374 | 22 |
| Total | 45,793 | 61,078 | 155 | 52,057 | 161 |



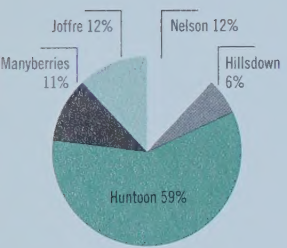

**Oil & Natural Gas Reserves**
BOE

## RESERVES

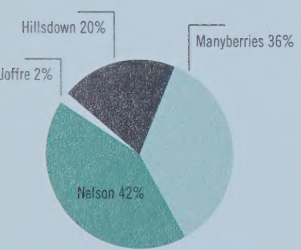
Bison's oil and natural gas reserves have been reported as at December 31, 1999 by Martin Brusset Associates ("MBA"). MBA prepared an evaluation of the oil and natural gas reserves and the future cash flows attributable to Bison's interests in the Huntoon area in Saskatchewan and the Hillsdown, Joffre, Manyberries and Nelson areas of Alberta.

The estimated future net production revenues stated net of royalties, operating costs and future development costs and prior to any provision for income taxes, overhead and interest costs are as follows:

| | Reserves Oil (BBL) | Natural Gas (MCF) | Discounted Value of Estimated Future Net Revenues 0% | 10% | 15% |
|---|---|---|---|---|---|
| Proved Producing | 252,000 | 612,800 | $ 4,017,600 | $ 2,838,700 | $ 2,496,900 |
| Proved Non-Producing | 0 | 435,400 | $ 795,000 | $ 480,700 | $ 404,700 |
| Probable | 0 | 0 | $ 0 | $ 0 | $ 0 |
| Total | 252,000 | 1,048,200 | $ 4,812,600 | $ 3,319,400 | $ 2,901,600 |

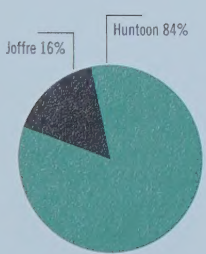



**Oil & Natural Gas Reserves**
BOE

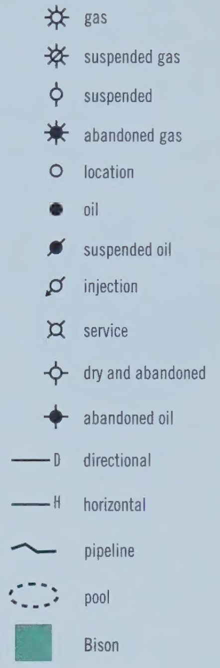



**Gas Reserves**
MCF

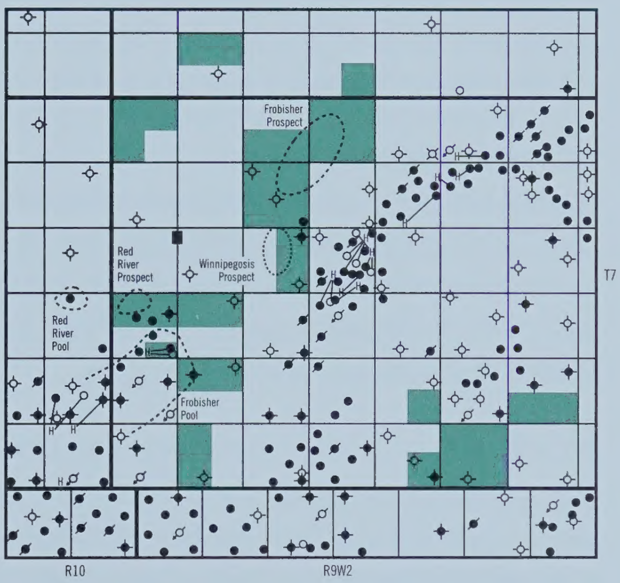
Reserve volumes are before the deduction of royalty interests. It should not be assumed that the discounted value of estimated future net production revenues is representative of the fair market value of the estimated oil and natural gas reserves. The price forecast used in the evaluation was based on MBA's interpretation of future oil and gas prices as appear likely from movements in world oil and gas prices. Oil prices for individual pools are based on published prices which vary with oil gravity and sulphur content. Future prices increase according to the reference price schedule, adjusted by the difference between the current price and the reference price. Gas prices were based on an assessment of likely prices for each major gas purchaser in Canada and vary with the cost of service.




**Oil Reserves**
BBL


## HUNTOON, SASKATCHEWAN



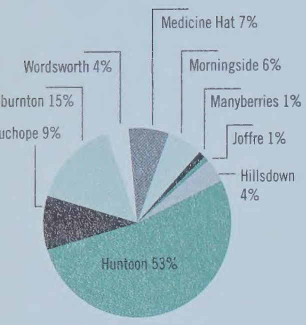

The Huntoon area is located approximately 50 kilometers southeast of Weyburn. Bison's oil production in this area is from the Frobisher Beds within the Mississippian Mission Canyon formation. Bison's proved reserves in the Huntoon area are estimated at 210,500 bbl of crude oil. During 1998, one horizontal and two vertical 100% working interest wells were drilled by Bison in this area, of which one 100% working interest well was completed as a crude oil well. Current production of 113 bopd is from three 100% working interest oilwells. Production is subject to crown royalty. Bison has identified additional, exploitation and development drilling opportunities in this area. Accordingly, Bison intends to drill three 100% working interest vertical development wells in the Huntoon area. Bison has an average 82% working interest in 5,600 acres of land in the Huntoon area located in Township 7 Range 9 W2M.

## INNES, SASKATCHEWAN

The Innes area is located approximately 30 km southeast of Weyburn. Bison has a 45% working interest in 80 acres of land in SW 26-007-11 W2M. Bison farmed out a horizontal well located at 15-26-007-11 W2M which is currently producing 6 bopd of oil and 3 mcfd of gas net to Bison with one horizontal leg open. Due to lower oil production and high water cuts this well has become uneconomic and the operator of the well has decided to attempt to open the second leg. Bison believes that even if the operator is successful in opening the second leg, the well will not be economic and has chosen not to participate in the workover of the well.

## HILLSDOWN, ALBERTA

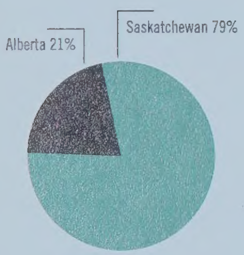
The Hillsdown property is a non-operated gas prospect situated approximately 30 km southeast of Red Deer, Alberta and consists of three Viking Gas wells, two producing and one shut-in. Bison retains an 8% working interest in one producing well in 6-13-37-25 W4M and 20% working interest in sections 10 and 12 37-25 W4M. The two producing wells have a combined production of approximately 500 mcf per day with the company retaining an overall net production of about 20 mcf per day. Producing reserves are net 210,000 mcf with natural gas liquids. The remaining shut-in gas well may be tied in 2000 if production rates and pricing justify the tie-in costs.




Land Holdings
ACRES

## JOFFRE, ALBERTA

The Joffre area is located approximately 5 km north of Red Deer. Bison holds a 70% before payout working interest and 42% after payout working interest in all P&NG rights from the base of the Mannville formation to the base of the Nisku formation in the SW/4 of section 30-039-26 W4M. Bison's proved reserves are estimated at 41,500 bbl of crude oil and 22,600 mcf of natural gas in the Joffre area. The property includes an oil well located at 03-30-039-26 W4M which began production from the Nisku formation in 1994 and is currently producing 31 bopd net to Bison. There are two non-convertible gross over-riding royalties and one gross over-riding royalty convertible at payout to a working interest.




Land Holdings
ACRES

## MANYBERRIES, ALBERTA

The Manyberries area is located approximately 70 km south of Medicine Hat. Bison holds a 15.4% working interest in all P&NG rights to the base of the Sunburst formation in section 33-004-04 W4M. Bison's proved reserves are estimated at 380,700 mcf of natural gas in this area. The property includes a gas well located at 04-33-004-04 W4M currently producing 160 mcfd net to Bison from the Sunburst formation. Production is subject crown royalty and a gross over-riding royalty.

## NELSON

The Nelson area is located approximately 48 km north of Red Deer. Bison holds a 50% before payout working interest and 25% after payout working interest in all P&NG rights from the base of the Belly River Formation to the base of the Mannville Group in section 17-044-25 W4M. Bison's proved non-producing reserves are estimated at 435,400 mcf of natural gas in the Nelson area. The property includes a recently drilled gas well located at 09-17-044-25 W4M. Production is subject Crown royalty and a gross over-riding royalty.

## AUBURNTON, SASKATCHEWAN

Bison retains a 100% working interest in 1280 acres of exploration lands in the Auburnton area. Main targets for production are porous beds within the Frobisher formation where oil is trapped by a combination of structural closures and stratigraphic changes in porosity. In the immediate area there is an underlying active aquifer which provides the support mechanism for initial and secondary production. Pending success in other areas in 2000 the company anticipates drilling an evaluation well in late fall to establish a new pool.

## MORNINGSIDE, ALBERTA

Bison has accumulated freehold acreage on an Ellerslie gas prospect in the Morningside area. The prospect is predicated upon the down dip oil shows from sandstones within a remnant channel, and the trend of the channel suggests that updip gas may be present. The medium drilling depth of the prospect will provide substantial downhole pressure and associated liquids production further enhances the economics of the prospect. Bison is undertaking a seismic review of the prospect with the intention to pinpoint a drilling location.

## WAUCHOPE, SASKATCHEWAN

Typical of the areas the company has developed land positions in, Wauchope is 794 acres of exploratory acreage where the company has a 100% working interest. Primary productive horizons include the Alida and Tilston formations where higher deliverability wells are matched with increasingly higher water cuts. Vertical wells will be drilled first, following success the company would drill a horizontal well to maximize production. A horizontal well would be eligible for a royalty relief program whereby crown royalty would be only 4% on the first 75,000 barrels of production, well past the payout position at current product prices.

## WILLMAR, SASKATCHEWAN

The land position at Willmar is only 40 acres of 100% working interest lands, but the location of the lands suggests a very low risk infill well which could produce both high productive rates and retain reserves in the order of 150,000 barrels recoverable. The company has been in discussions with offset owners to obtain other opportunities in the area prior to commencement of drilling, and would anticipate drilling a well after securing additional partners. The property is considered to be a good candidate for quick payout or future trades.

## WORDSWORTH, SASKATCHEWAN

Bison has a 100% working interest in 320 acres in the N/2 of section 08-007-04 W2M in the Wordsworth (formerly Buffalo Head) area of southeast Saskatchewan. Oil production is expected from any of the Frobisher, Kisbey and Alida Beds within the Mississippian Mission Canyon. One 1,295 meter development location has been identified at 11-08-007-04 W2M with the Kisbey Sandstone as the primary target and the secondary targets being the Frobisher and Alida formations.

## REVENUE

Bison's average daily production for the year ended December 31, 1999 was 161 boepd, comprised of 144 boepd of crude oil and ngl and 170 mcfd of natural gas, as compared to 224 boepd, comprised of 205 boepd of crude oil and ngl and 179 mcfd of natural gas for the year ended December 31, 1998. The decrease of 63 boepd in Bison's average daily production rate in year ended December 31, 1999 over the comparable period in 1998 is attributable to declining production from the Huntoon 3/1-18 well.

Production revenues, net of royalties, for the year ended December 31, 1999 were $1,253,708 compared to $667,582 for the year ended December 31, 1998. This increase in production revenues was primarily the result of increased prices for crude oil and natural gas. For the year ended December 31, 1999 Bison realized an average price of $25.23 per bbl for crude oil and ngl and $2.71 per mcf for natural gas compared to an average price of $16.58 per bbl for crude oil and ngl and $1.61 per mcf for natural gas for the year ended December 31, 1998.

For the year ended December 31, 1999 crude oil sales of $1,159,255 accounted for 87% while natural gas sales of $165,612 accounted for 13% of the total revenue compared to crude oil sales of $590,520 (85%) and natural gas sales of $104,496 (15%) for the year ended December 31, 1998.

## ROYALTIES

Royalties include payments made to the Crown, freehold owners and other third parties. Royalties (net of ARTC) paid during the year ended December 31, 1999 totaled $71,159 ($1.37 per boe) compared to $27,433 ($0.65 per boe) for the year ended December 31, 1998. This increase in royalties was primarily the result of increased prices for crude oil and natural gas.

## PRODUCTION AND GENERAL & ADMINISTRATIVE EXPENSES

Production expenses increased from $114,132 ($2.71 per boe) for the year ended December 31, 1998 to $529,471 ($10.17 per boe) for the year ended December 31, 1999. These expenses increased as a result of increased production due to the two new oil wells, workovers at four oil wells and the costs associated with handling increasing amounts of water from Bison's Saskatchewan wells.

General and administrative expenses increased to $388,791 ($7.47 per boe) for the year ended December 31, 1999 from $351,390 ($8.49 per boe) for the year ended December 31, 1998. The increase of $37,401 was mainly due to additional administrative staff, filing and licensing fees, office rent and bank service charges. Interest on long-term debt increased to $25,847 for the year ended December 31, 1999 from $5,960 for the year ended December 31, 1998. This increase is the result of the utilization of a new revolving term credit facility.

## DEPRECIATION , DEPLETION AND AMORTIZATION

The provision for depreciation, depletion and amortization of property and equipment, including a provision for future abandonment costs increased to $450,483 for the year ended December 31, 1999 from $395,043 for the year ended December 31, 1998.

## INCOME TAXES

As a result of adopting the liability method of accounting for future income taxes Bison adjusted its Retained Earnings by increasing it $182,577, accounted for an Income Tax Recovery of $76,478 for the year ended December 31, 1999 and accrued a Future Income Tax Liability of $619,094 as of December 31, 1999.

## EARNINGS

Cash flow from operations for the year ended December 31, 1999 increased to $582,415 ($0.07 per share) compared to $318,931 ($0.05 per share) the year ended December 31, 1998. Earnings before interest, taxes, and amortization during the year ended December 31, 1999 increased to $335,996 from $202,067 for the year ended December 31, 1998. The net loss for the year ended December 31, 1999 decreased to $63,856 ($0.01 per share) from a loss of $198,936 ($0.03 per share) for the year ended December 31, 1998.

## LIQUIDITY AND CAPITAL RESOURCES

Capital expenditures on exploration, development and operating activities precede the resulting production and cash flow, often for a significant period. Continued growth and the ability to capitalize on opportunities as they arise requires capital resources in excess of funds generated through operating activities. Historically, Bison's sources of financing have been private placements of equity securities, funds from operations and bank indebtedness. In keeping with a philosophy of maintaining corporate structure and facing the reality of sparse equity financing available from the public, Bison has chosen to minimize its equity offerings to date. Bison's strategy is to fund future exploration and development expenditures and acquisitions from cash flow from operations together with the proceeds of limited private placements and available debt facilities. Management of Bison believes that funds from these sources will be adequate to meet Bison's near-term liquidity needs.

During 1999 Bison issued a total of 1,970,000 common shares, raising at total of $768,000 less share issuance costs of $115,406 for net proceeds of $652,594. Bison issued 1,870,000 of the total common shares by way of flow-through share offerings whereby the $748,000 raised is required to be spent on qualified CDE and CDD expenditures allowing for the tax benefits of those expenditures to "flow-through" to the shareholder. In addition, 100,000 agents options from previous public offerings were exercised for total proceeds of $20,000. Bison used these funds along with cash flow from operations to finance capital expenditures of $517,051 in 1999 and reduce the balance of its long-term revolving line of credit to nil. Bison had cash and deposits totaling $662,197 at December 31, 1999.

Management is responsible for the preparation of the financial statements and for the consistency therewith of all other financial and operating data presented in this annual report.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

External auditors, appointed by the shareholders, have examined the financial statements. The Audit Committee has reviewed the financial statements with management and the auditors and has reported to the Board of Directors. The Board has approved the financial statements.

N Swagor

Nicolas S. Swagor
President

Kevin D. Dumba
Vice President Finance

# AUDITOR'S REPORT

We have audited the balance sheets of Bison Resources Ltd. as at December 31, 1999 and 1998 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
March 17, 2000

# BALANCE SHEETS

| December 31, 1999 and 1998 | | 1999 | | 1998 |
|---|---|---|---|---|
| | | | | (note 8) |
| **Assets** | | | | |
| Current assets: | | | | |
| Cash | $ | **662,197** | $ | – |
| Accounts receivable | | **220,488** | | 122,101 |
| Other | | **14,060** | | 11,567 |
| | | **896,745** | | 133,668 |
| Capital assets (note 2) | | **2,425,042** | | 1,728,974 |
| | $ | **3,321,787** | $ | 1,862,642 |
| **Liabilities and Shareholders' Equity** | | | | |
| Current liabilities: | | | | |
| Bank indebtedness | $ | – | $ | 17,237 |
| Accounts payable and accrued liabilities | | **477,539** | | 195,917 |
| | | **477,539** | | 213,154 |
| Long-term debt (note 3) | | **284,000** | | 231,000 |
| Provision for site restoration costs | | **26,000** | | 10,500 |
| Future income tax liability | | **619,094** | | – |
| Shareholders' equity: | | | | |
| Share capital (note 4) | | **2,010,795** | | 1,622,350 |
| Deficit | | **(95,641)** | | (214,362) |
| | | **1,915,154** | | 1,407,988 |
| | $ | **3,321,787** | $ | 1,862,642 |

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

# STATEMENTS OF OPERATIONS AND DEFICIT

| Years ended December 31, 1999 and 1998 | 1999 | 1998 (note 8) |
|---|---|---|
| **Revenue:** | | |
| Oil and gas revenues | $ 1,324,867 | $ 695,016 |
| Royalties | (71,159) | (27,434) |
| Interest | 550 | 7 |
| | 1,254,258 | 667,589 |
| **Expenses:** | | |
| Production | 529,471 | 114,132 |
| Depreciation, depletion and amortization | 450,483 | 395,043 |
| General and administration | 388,791 | 351,390 |
| Interest on long-term debt | 25,847 | 5,960 |
| | 1,394,592 | 866,525 |
| Net loss before taxes | 140,334 | 198,936 |
| Income tax recovery | (76,478) | – |
| Net loss for the year | 63,856 | 198,936 |
| Deficit, beginning of year | 214,362 | 15,426 |
| Change in accounting policy (note 8) | (182,577) | – |
| Deficit, end of year | $ 95,641 | $ 214,362 |
| Net loss per share, basic | $ 0.01 | $ 0.03 |

See accompanying notes to financial statements.

## STATEMENTS OF CASH FLOWS

| Years ended December 31, 1999 and 1998 | 1999 | 1998 |
|---|---|---|
| | | (note 8) |
| **Cash provided by (used in):** | | |
| **Operations:** | | |
| Net loss | **$ (63,856)** | $ (198,936) |
| Deduct non-cash items: | | |
| Depletion, depreciation and amortization | **450,483** | 395,043 |
| Income tax recovery | **(76,478)** | – |
| Change in non-cash operating working capital | **272,266** | 122,824 |
| | **582,415** | 318,931 |
| **Financing:** | | |
| Proceeds on long-term debt | **53,000** | 231,000 |
| Issue of share capital | **768,000** | 1,382,500 |
| Share issue costs | **(115,406)** | (86,226) |
| | **705,594** | 1,527,274 |
| **Investments:** | | |
| Due on acquisition | – | (301,008) |
| Additions to capital assets | **(517,051)** | (2,235,633) |
| Change in non-cash working capital | **(91,524)** | – |
| | **(608,575)** | (2,536,641) |
| Increase (decrease) in cash | **679,434** | (690,436) |
| Cash (bank indebtedness), beginning of year | **(17,237)** | 673,199 |
| Cash (bank indebtedness), end of year | **$ 662,197** | $ (17,237) |

Cash is comprised of cash and short-term deposits

See accompanying notes to financial statements.

**Incorporation and basis of presentation:**

Bison Resources Ltd. (the "Corporation") was incorporated under the Business Corporations Act (Alberta) on May 7, 1997.

## 1. SIGNIFICANT ACCOUNTING POLICIES

*(a) Capital assets:*

The Corporation follows the full cost method of accounting for oil and gas operations, whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized by cost centre. Such costs include land acquisition costs, cost of drilling both productive and non-productive wells, and geological and geophysical expenses and related overhead.

Capitalized costs, excluding costs relating to unproven properties, are depleted using the unit-of-production method based on estimated proven reserves of oil and gas before royalties as determined by independent petroleum engineers. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on the relative energy content.

The Corporation applies a "ceiling test" to capitalized costs to ensure that such costs do not exceed future net revenues from estimated production of proven reserves, using prices and costs in effect at the Corporation's year end, and the costs of unproven properties less impairment. Future net revenues are undiscounted and are calculated after deducting general and administrative costs, financing costs, income taxes and site restoration and abandonment costs.

Gains or losses on the disposition of oil and gas properties are not ordinarily recognized except under circumstances which result in a major revision of depletion rates.

Depreciation of furniture and office equipment will be provided using the straight-line method based upon estimated useful lives at rates of 15% to 25%.

*(b) Interest in joint ventures:*

A portion of the Corporation's oil and gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Corporation's proportionate interest in such activities.

*(c) Future site restoration and abandonment costs:*

Site restoration and abandonment costs are provided for over the life of the estimated proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Corporation's engineers based on current regulations, costs, technology and industry standards. The period charge is expensed and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

*(d) Measurement uncertainty:*

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

*(e) Per share amounts:*

Per share amounts are calculated using the weighted average number of shares outstanding during the year. Fully diluted per share calculations reflect the exercise of options and warrants at the later of the date of issuance or the beginning of the year. Anti-dilutive options and warrants are not included in the calculation.

*(f) Flow-through shares:*

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Share capital is reduced and the future income tax liability is increased by the estimated cost of the renounced tax deductions.

*(g) Stock-based compensation plan:*

The Corporation has one stock-based compensation plan, which is described in note 4. No compensation expense is recognized for these plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. The Corporation does not purchase stock or stock options from employees as part of its stock-based compensation plan.

*(h) Income taxes:*

Effective January 1, 1999, income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. Temporary differences arising on acquisitions result in future income tax liabilities or assets..

Prior to 1999, the Corporation followed the tax allocation method of accounting for the tax effect of timing differences between taxable income and income recorded in the financial statements. Timing differences arise when, for income tax purposes, the Corporation deducts exploration and development expenditures and capital cost allowances in amounts differing from those charged to expense in the financial statements.

## 2. CAPITAL ASSETS

| **1999** | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| Petroleum and natural gas properties and equipment | $ 3,208,304 | $ 810,100 | $ 2,398,204 |
| Furniture and office equipment | 36,264 | 9,426 | 26,838 |
| | $ 3,244,568 | $ 819,526 | $ 2,425,042 |
| **1998** | | | |
| Petroleum and natural gas properties and equipment | $ 2,086,300 | $ 380,300 | $ 1,706,000 |
| Furniture and office equipment | 27,217 | 4,243 | 22,974 |
| | $ 2,113,517 | $ 384,543 | $ 1,728,974 |

The 1998 ceiling test was conducted using average prices received for the year. If the evaluation had been carried out using year end prices of $13.29 a barrel for oil and $1.76 an mcf for gas, capitalized costs with respect to the petroleum and natural gas properties would have exceeded future net revenues by approximately $200,000. Based on prices at December 31, 1999, the Corporation had a surplus on its 1999 ceiling test.

The depletion calculation has excluded unproved properties of $ 462,277 (1998 – $404,000).

As at December 31, 1999, the estimated future site restoration costs to be accrued over the remaining proved reserves are $108,690(1998 – $62,210).

## 3. LONG-TERM DEBT

The long-term debt is comprised of a revolving term loan with an authorized borrowing base of $500,000, bearing interest at prime plus 1% per annum with interest payable monthly. The credit will revolve until May 31, 2000, when the credit facility may be converted to a term facility with a term not exceeding five years, the committed limit of which will be determined by the bank. The long-term debt is secured by a general assignment of book debt, and a $10,000,000 demand debenture conveying a first floating charge over all assets.

## 4. SHARE CAPITAL

*(a) Authorized:*

Unlimited number of common shares

*(b) Common shares issued:*

| | Number of Shares | | Amount |
|---|---|---|---|
| **Balance, December 31, 1997** | **4,000,000** | **$** | **690,076** |
| Private placement | 1,000,000 | | 250,000 |
| Issued on acquisition | 500,000 | | 250,000 |
| Private placement flow-through shares | 2,265,000 | | 1,132,500 |
| Less tax effect of flow-through shares | – | | (614,000) |
| Share issue costs | – | | (86,226) |
| **Balance, December 31, 1998** | **7,765,000** | | **1,622,350** |
| Options exercised | 100,000 | | 20,000 |
| Private placement flow-through shares | 375,000 | | 150,000 |
| Public offering flow through shares | 1,495,000 | | 598,000 |
| Less tax effect of flow-through shares | – | | (333,608) |
| Share issue costs, net of tax effect of $51,471 | – | | (63,935) |
| Change in Accounting policy (note 8) | – | | 17,988 |
| **Balance, December 31, 1999** | **9,735,000** | **$** | **2,010,795** |

*(c) Outstanding Options:*

At December 31, 1999, the Corporation had one stock-based compensation plan. The Corporation's Stock Option Plan as adopted by the Board of Directors, effective June 16, 1998, is described below: Stock options to purchase common shares may be granted to the directors, officers, employees and key personnel (including consultants) of the Corporation by the Board of Directors of the Corporation.

The maximum number of stock options which may be granted or shares reserved for issuance under the stock option plan shall be limited to a floating amount, being that number of common shares which is equal to 10% of the number of common shares outstanding from time to time and the maximum number of stock options that may be issued to a particular person shall be limited to 5% of the number of common shares outstanding from time to time, provided that subsequent decreases in the number of outstanding shares shall not affect the validity of previously reserved or issued options.

The exercise price for the shares covered by each stock option shall not be lower than the closing price of the common shares on the CDNX on the date prior to the CDNX being notified of the proposed granting of the stock option (or the average price of the common shares for the last ten trading days prior to the CDNX being notified, if such average price exceeds the closing price by 10% or more), less the maximum discount permitted by the CDNX.

The stock options granted shall become exercisable (vested) either in yearly increments or immediately at the time of grant and shall expire on dates selected by the Board of Directors at the date of grant. Each stock option may be exercised, with respect to any of the shares covered thereby, at any time between the date on which it becomes exercisable and the end of the stock option's term.

The optionees shall be protected in the event of any stock split, stock dividend or combination, or any other similar recapitalization or reclassification of the common shares affecting the proportionate rights of holders thereof without direct payment for shares. In any such case, the number of shares then subject to each stock option and the price to be paid therefore shall be so adjusted equitably so that the optionees' proportionate interest shall be maintained without change in aggregate option price. Appropriate provisions shall be made for protection of the optionees' rights in event of any merger, consolidation or reorganization of the Corporation.

The Corporation shall enter into an agreement with each optionee specifying the number of shares under option to such optionee, the exercise dates and expiry dates. Any one director of the Corporation be and is hereby authorized to execute, on behalf of the Corporation and under its corporate seal, each such agreement.

Subject to the receipt of any necessary approvals from the CDNX, the Board of Directors may amend or discontinue the Stock Option Plan at any time, but no such amendment may alter or impair any options previously granted except with the written consent of the holder of the option.

A summary of the status of the Corporation's Stock Option Plan as of December 31, 1999 and 1998, and changes during the years ending on those dates is presented below:

| | 1999 Number of options | 1999 Average exercise price of | 1998 Number options | 1998 Average exercise price |
|---|---|---|---|---|
| Balance, beginning of year | **475,000** | **$ 0.31** | 300,000 | $ 0.20 |
| Granted | **275,000** | **0.20** | 175,000 | 0.50 |
| Exercised | **–** | **0.20** | – | – |
| Canceled | **(50,000)** | **0.20** | – | – |
| Balance, end of year | **700,000** | **$ 0.28** | 475,000 | $ 0.31 |
| Exercisable at year end | **700,000** | **$ 0.28** | 475,000 | $ 0.31 |

As of December 31, 1999, 525,000 stock options outstanding under the Corporation's Stock Option Plan have an exercise price of $0.20 and the remaining 175,000 have an exercise price of $0.50. The 700,000 stock options have a weighted-average remaining contractual life of 3.5 years.

*(d) Escrow:*

Pursuant to various escrow agreements, 1,619,868 common shares are being held in escrow at December 31, 1999. These shares shall be released based on various time criteria or earlier at the discretion of the Alberta Securities Commission or the Canadian Venture Exchange.

## 5. INCOME TAXES

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate of 44.6% to income before income taxes. The difference relates to the following items:

| | 1999 | 1998 |
|---|---|---|
| Statutory tax rate | **44.6%** | 44.6% |
| Expected recovery | **$ (62,589)** | $ (88,800) |
| Non-deductible crown charges, net ARTC | **24,389** | 10,000 |
| Resource allowance | **(40,347)** | (24,000) |
| Non deductible depletion | **–** | 78,000 |
| Other | **2,069** | 1,300 |
| Benefit of losses not recognized | **–** | 23,500 |
| | **$ (76,478)** | $ – |

The components of the net future income tax liability at December 31, 1999 is as follows:

| | | |
|---|---|---|
| **Future income tax assets:** | | |
| Share issue costs | $ | 76,801 |
| Loss carry forwards | | 33,087 |
| Future site restoration | | 8,697 |
| | $ | 118,585 |
| **Future income tax liabilities:** | | |
| Property, plant and equipment | $ | 737,679 |
| Net future income tax liability | $ | 619,094 |

As at December 31, 1999, the Corporation has a commitment to renounce approximately $748,000 (1998 – $70,000) of income tax attributes associated with oil and gas exploratory and development activities.

## 6. RELATED PARTY TRANSACTIONS

Included in accounts receivable is $ 4,265 (1998 – $17,324) due from companies controlled by officers and directors of the Corporation. Included in accounts payable is $ 67,626 (1998 – $nil) due to companies controlled by an officer and director of the Corporation.

## 7. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform with the financial statements presentation adopted in 1999.

## 8. CHANGE IN ACCOUNTING POLICY

During the year, the Corporation changed its method of accounting for taxes from the deferral method to the liability method described in note 1 and has applied this change retroactively without restating prior periods. At January 1, 1999, the future income tax liability was increased by $413,435, property, plant and equipment was increased by $614,000, share capital was increased by $17,988 and opening retained earning was increased by $182,577. These adjustments were a result of recognizing the future tax costs of the non-deductible potion of acquisitions and renouncing deductions to flow-through share subscribers.

# CORPORATE INFORMATION

## DIRECTORS

David G. Anderson [1]
Executive Vice President
Centrinity Inc.

Kevin D. Dumba [1]
Vice President Finance
Bison Resources Ltd.

R. Bradley Hurtubise [1]
Senior Vice President Finance
Direct Energy Marketing Limited

Nicolas S. Swagor
President
Bison Resources Ltd.

[1] Member of Audit Committee

## OFFICERS AND KEY PERSONNEL

Kevin D. Dumba
Vice President Finance

Barrie Regan
Vice President Exploration

Nicolas S. Swagor
President

Leslie L. Wybert
Office Manager

## HEAD OFFICE

Suite 500, 505 – 8th Avenue SW
Calgary, Alberta , Canada T2P 1G2
Telephone: (403) 265-5565
Facsimile: (403) 266-8886
Website: www.bisonresources.com

## SHARE CAPITAL

Authorized: Unlimited number of Class "A" Common Shares, and unlimited number of first and second preferred shares

Issued and outstanding: 9,735,000
(10,584,500 fully diluted)

## STOCK EXCHANGE LISTING

Canadian Venture Exchange
Symbol:BIS.A

## MARKET INFORMATION

| | |
|---|---|
| Common Share Price | |
| High | $ 0.39 |
| Low | $ 0.09 |
| Close | $ 0.30 |
| Common Shares Traded | |
| First quarter | 15,000 |
| Second quarter | 78,050 |
| Third quarter | 166,000 |
| Fourth quarter | 270,500 |
| Year | 529,550 |
| Year-end shares outstanding | 9,735,000 |
| Weighted average shares outstanding | 7,832,808 |

## REGISTRAR & LISTING AGENT

Montreal Trust Company of Canada,
Calgary, Alberta

## BANKING

Bank of Nova Scotia,
Calgary, Alberta

## AUDITORS

KPMG LLP, Calgary, Alberta

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